

# Chicago Office Market

## Employees Unhurried to Return to the Office in 2Q22

Despite the high hopes of many, the office market's performance in the second quarter of 2022 was lackluster. Employees did not return to the office en masse, and activity vacillated with transactions by some for growth and deals for reduction by others. Tenants that are expanding or choosing to lease enough space for all their employees are citing a belief that eventually, their employees will be back in the office. At the end of June, the Kastle Security Systems office occupancy data reached its highest rate since March 2020, with the 10-city average reaching 44.2%. Chicago fell just slightly below this at 41.9%.

At a metro level this quarter, vacancy increased 40 basis points to 21.6% due to almost 800,000 square feet of negative absorption. Rental rates were up slightly, at \$32.36/SF. Sublease availability jumped up 200,000 square feet at the metro level, while direct availability fell by 500,000 square feet, a potentially positive sign indicating some significant lease transactions.

### Current Conditions

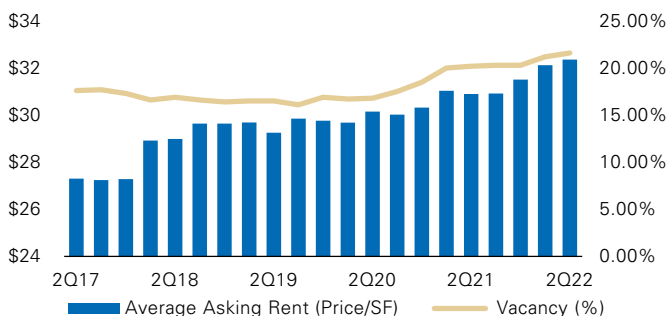
- Metro vacancy rose once again, this time 40 basis points to 21.6% driven by a significant amount of negative absorption.
- Several large tenants signed new deals this quarter in the suburbs and CBD shrinking their footprints.
- Rental rates did increase in the metro largely thanks to climbing rental rates in Fulton Market and the West Loop.

### Market Summary

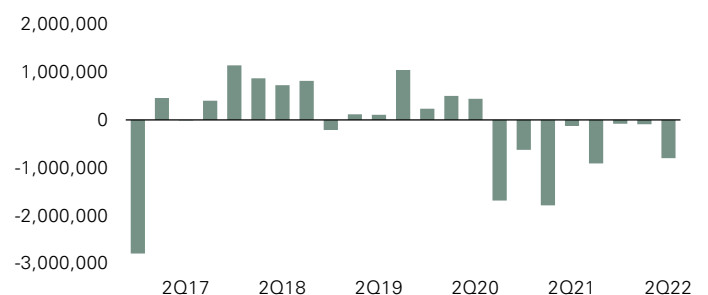
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	250.9M	250.6M	243.9M	↑
Vacancy Rate	21.6%	21.2%	20.2%	↑
Quarterly Net Absorption (SF)	(795,654)	(90,569)	(124,770)	↓
Average Asking Rent/SF	\$32.36	\$32.12	\$30.90	↑
Under Construction (SF)	1.4M	1.4M	3.6M	→
Deliveries (SF)	-	2.0M	301,000	↓

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION



## CBD Overview

The Central Business District experienced a second consecutive quarter of negative absorption, at nearly negative 600,000 square feet. This drove vacancy up 30 basis points to 19.3%. A noteworthy amount of sublease space was added to the market this quarter including large spaces from Snpasheet at 1 North Dearborn, Here Technology at 100 North Riverside, Edelman at 111 North Canal St., Deloitte at 111 S. Wacker Dr. and Nielsen at 200 W. Jackson Blvd. Rental rates had no movement, holding steady at \$40.10/SF. The CBD Class A vacancy rate was stable this quarter at 17.6%, the same as the first quarter of 2022. Flight-to-quality patterns continued, and Class A CBD rental rates jumped up almost \$0.70/SF for the quarter, to \$43.59/SF.

The suburban market's activity levels carried on at a slower pace this quarter, with negative 207,000 square feet of absorption pushing vacancy up 30 basis point to 25.1%. Sublease availability fell almost 800,000 square feet in the submarket due to sublease transactions from tenants such as ND Paper, Penske and Everlake Insurance, as well as some spaces converting to direct vacancy.

## Leasing Activity

Fulton Market continued to attract tenants this quarter as Boston Consulting became the latest large name to head west, agreeing to anchor Sterling Bay's project at 360 North Green. The building will break ground later this summer with a scheduled completion date in 2024. Boston Consulting will move from its current home at 300 North LaSalle, leaving behind 150,000 square feet at the Riverfront Tower. Willis Tower will welcome a new tenant. Abbott will open its first Downtown office: 100,000 square feet on the 25<sup>th</sup> and 26<sup>th</sup> floors of the newly renovated building. Following a trend of companies contracting, The Blue Cross Blue Shield Association is shrinking its office space Downtown,

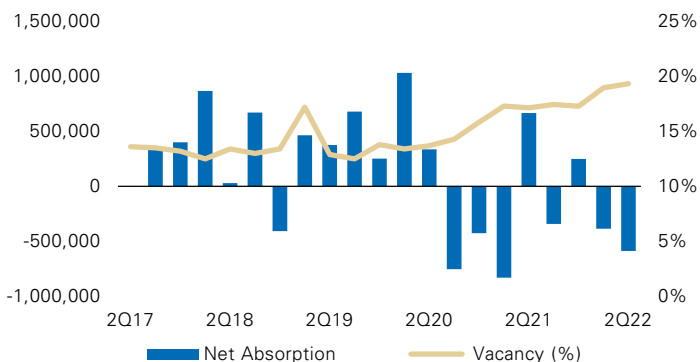
moving from 225 North Michigan Ave. to Aon Center, where it will lease 95,000 square feet. Pushing the flight-to-quality trend mentioned earlier, Linden Capital Partners is upgrading its space from an already premier tower, 150 North Riverside, to the penthouse space at 110 North Wacker. It has been rumored that the rental rates for the space is over \$50.00/SF.

In the suburbs, Consumers Credit Union agreed to lease all of 300 North Field Dr. in Lake Forest. In Rolling Meadows, the FAA has agreed to lease 115,000 square feet at 3800 Golf Rd. Out West, heart failure management company Endotronix is growing. The company leased 75,000 square feet at 1415 W. Diehl Rd. in Naperville. Also expanding is Heritage Crystal Clean. The company is growing by 10,000 square feet and moving to Bell Works Chicago for 40,000 square feet. The company is now the third major tenant at the 1.3-million-square-foot converted campus.

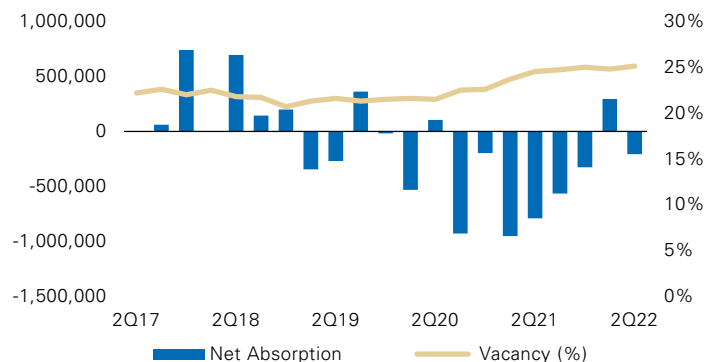
## Investment Sales

The investment sales market in Chicago hit a speedbump following two very strong quarters in the second quarter with \$436.8 million dollars at the end of June. Year-to-date the total investment sales volume hit \$2.6 billion, a number the market didn't reach until November of 2021 and never reached in 2020. After consistently falling for several quarters, average office capitalization rates pushed up to 7.1%, a 30-basis point climb, for the quarter. At the halfway point of the year, institutional capital has made up over 50% of buyers and sellers so far. At 58.2% of buyers, it is a significantly higher number than the past 10 years, when the second highest year was 2016 with 54.0%.

### CBD Net Absorption and Vacancy



### Suburban Net Absorption and Vacancy



### Creative Reuses

One of the most well-known creative reuses in Chicago was Google's lease at 1000 West Fulton St. Google currently has 1,800 Chicago employees, up by about 600 since the beginning of 2020. The company is looking to add another 1,000 employees over the next two years. It has been rumored that the firm was going to build a third office in Fulton Market, with 400 N. Aberdeen St. being the central focus. But late in the second quarter of 2022, market chatter was focused on Central Loop properties, including the former Bank of America building at 135 South LaSalle St. or the Thompson Center. If Google makes this commitment, it will help revitalize a submarket that has taken many hits over the last few years as tenants have emptied out to new towers along the river and Fulton Market. In a recent report from the Urban Land Institute, a plan to bring foot traffic back to the historic street was revealed. The main goal is to make the thoroughfare a mixed-use district. That would mean repurposing a considerable amount of the outdated office space in the submarket to attract entrepreneurs and more service-oriented tenants. The plan also included multiple pedestrian plazas on either end, art installations, seating areas and eliminating parking and vehicle traffic in specific areas. If this plan is carried out, it would bring a much-needed facelift to the area.

In Mount Prospect this quarter, the former United Airlines headquarters campus cleared a final hurdle in its reuse plans. CloudHQ received approval from the village to move

ahead with its data center development at 1200 E Algonquin Rd.: three 84-megawatt data centers, which would include a total of about 100,000 square feet of office space between the three. Plans also include a ComEd substation at 1200 Dempster St. The project is expected to cost \$2.5 billion and create about 1,000 construction jobs each year over the next six years and 450 fulltime jobs upon completion. Creative reuses for properties like this are crucial in the suburbs, where there is a significant amount of outdated office space.

### Outlook

With recessionary headwinds starting to blow at the end of the quarter, the second half of 2022 might look a bit different than anticipated. While the challenges ahead are significant, the hope is that this downturn will be short and not a total halting of the economy; rather, a slowing of the rebounding that has been occurring. But COVID-19 is not over. The virus is circulating and mutating; a stronger variant could further stifle the economy. All of this means the office market will remain volatile, with tenants remaining uncertain about the future.

### Chicago Life Science Inventory

Address	Location	Total Size	Rental Rates	Tenants
Innovation Park	Libertyville	350,000 SF of Lab	\$15 - \$18 PSF Gross	Valent Bio Sciences Avexis
Illinois Science and Technology Park	Skokie	556,650 SF	\$35 - \$47 PSF Net	NorthShore Vetter LanzaTech
2430 N Halsted Street	Chicago (Lincoln Park)	120,000 SF	\$35 - \$45 PSF Net	Evozyne Exicure Solvd Health
Fulton Labs	Chicago (Fulton Market)	423,450 SF	\$40 - \$50 PSF Net	Portal Innovations
West End on Fulton	Chicago (Fulton Market)	301,260 SF	\$45 - \$55 PSF Net	Talis Biomedical Xeris Pharmaceuticals Portal Innovations

Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
<b>CBD Total</b>	<b>153.1M</b>	<b>1,440,000</b>	<b>19.3 %</b>	<b>(587,916)</b>	<b>(1,002,430)</b>	<b>\$43.59</b>	<b>\$37.19</b>	<b>\$40.10</b>
Central Loop	37,003,615	-	21.3 %	-287,671	-956,731	\$40.44	\$39.63	\$39.57
East Loop	25,510,592	-	22.4 %	-138,560	-373,141	\$40.24	\$35.21	\$37.18
Fulton Market	7,974,611	240,000	24.1 %	341,806	619,248	\$61.34	\$31.88	\$49.69
North Michigan Avenue	10,496,574	-	12.9 %	30,096	-37,006	\$35.84	\$36.26	\$35.50
River North	16,343,502	1,200,000	15.4 %	-161,211	-141,611	\$39.35	\$30.17	\$35.81
West Loop	55,837,136	-	18.4 %	-372,376	-113,189	\$44.91	\$36.37	\$42.50
<b>Suburban Total</b>	<b>97.6M</b>	<b>-</b>	<b>25.1 %</b>	<b>-207,738</b>	<b>86,999</b>	<b>\$24.14</b>	<b>\$21.62</b>	<b>\$22.95</b>
I-88 East	22,205,140	-	22.0 %	-147,026	71,287	\$25.95	\$22.44	\$24.37
I-88 West	13,470,532	-	22.2 %	-109,837	108,291	\$22.55	\$20.64	\$21.80
North	25,391,807	-	23.8 %	-164,621	-189,611	\$25.19	\$21.31	\$23.57
Northwest	23,743,367	-	33.5 %	40,882	91,070	\$21.34	\$20.64	\$21.04
O'Hare	12,831,579	-	20.8 %	172,864	5,962	\$28.56	\$25.50	\$25.68
<b>Chicago Metro</b>	<b>250,380,404</b>	<b>1,440,000</b>	<b>19.7 %</b>	<b>(914,581)</b>	<b>(3,740,558)</b>	<b>\$32.38</b>	<b>\$29.93</b>	<b>\$31.03</b>
CBD Lease Transactions								
Tenant	Market	Building	Type	Square Feet				
The Boston Consulting Group	Fulton Market	360 N Green St	Direct	250,000				
Echo Global Logistics	River North	600 W Chicago	Direct	185,000				
Abbott	West Loop	233 S Wacker Dr	Direct	100,000				
Blue Cross Blue Shield	East Loop	200 E Randolph St	Direct	95,000				
Suburban Lease Transactions								
Tenant	Market	Building	Type	Square Feet				
Consumers Credit Union	North	300 N Field Dr	Direct	137,000				
FAA	Northwest	3800 Golf Rd	Direct	115,000				
Endotronix	I-88 West	1415 W Diehld Rd	Direct	74,000				
Heritage Crystal Clean	Northwest	Bell Works Chicago	Direct	40,000				
Metro Sale Transactions								
Buyer	Market	Building	Price Per SF	Square Feet				
Northeast Capital Group	North	1 Corporate Drive	\$173/SF	1.1 MSF				
Arthur J Gallagher & Co	Northwest	2550 W Golf Rd	\$45/SF	280,471				
The Prime Group	Central Loop	100 W Randolph	\$58/SF	1.2 MSF				

## Economic Conditions

The pandemic has had a serious and long-lasting impact on the global and local economy. As of June, 66.3% of Americans are fully vaccinated. As the country has adapted, many more are returning to the office with in-office occupancy reaching the highest levels since the pandemic began, at 44.2% of pre-pandemic occupancy levels.

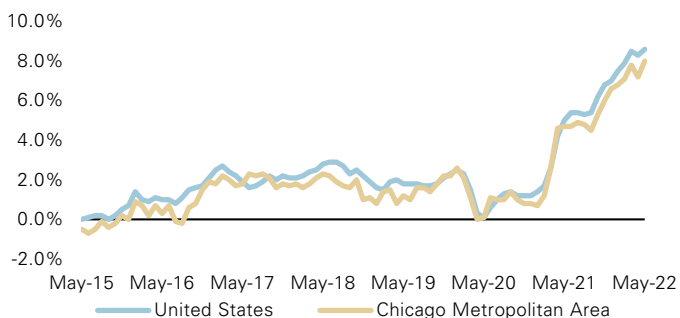
Chicago's unemployment rate fell 90 basis points in May from the start of the year to 4.2%, matching the lowest pandemic rate since last December. Despite indications of an economic slowdown, the labor market remains tight.

Job openings in the US hovered near-record levels in May with 11.4 million available jobs, and the number of people quitting their jobs was also historically high, at 4.4 million.

Pessimism about the future national economy has set in as inflation has risen at its fastest rate in 40 years, 8.6% year-over-year in May. Consumers reacted as retail sales fell from the previous month in May for the first time this year. The central bank's intentions to slow inflation led to the largest interest rate hike since 1994 of 0.75 percentage points. The Fed will continue to work to temper inflation without tipping the country into a recession.

## Consumer Price Index (CPI)

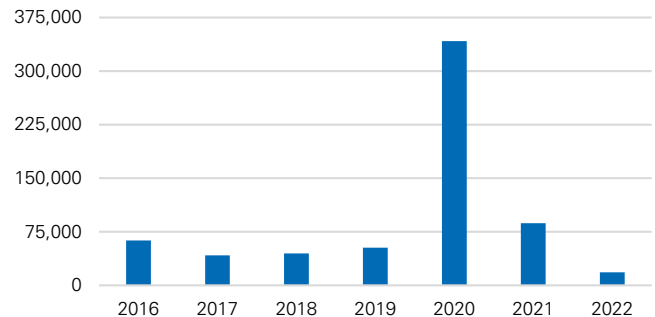
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJ.



Source: U.S. Bureau of Labor Statistics

## Layoff Statistics

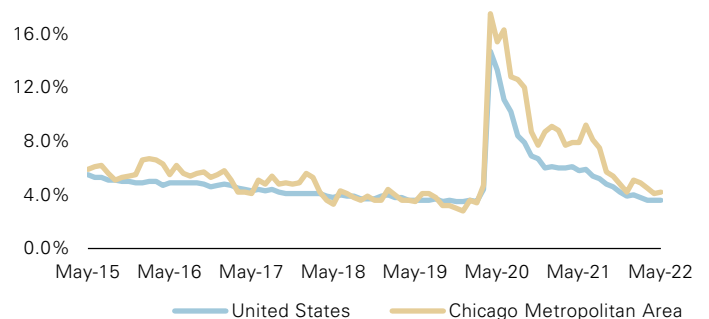
IL MASS LAYOFFS (INITIAL CLAIMS), MAY 2022



Source: Illinois Department of Employment Security, Economic Information and Analysis

## Unemployment Rate

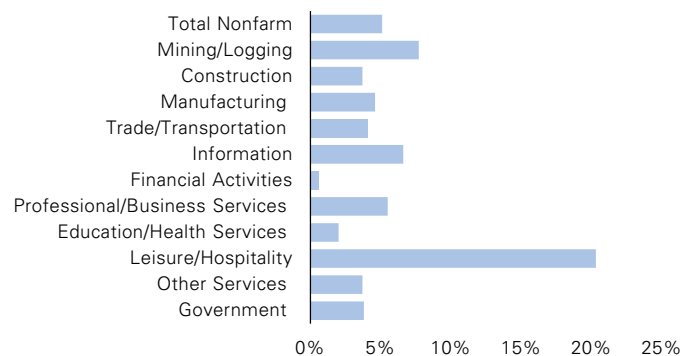
SEASONALLY ADJUSTED, MAY 2022



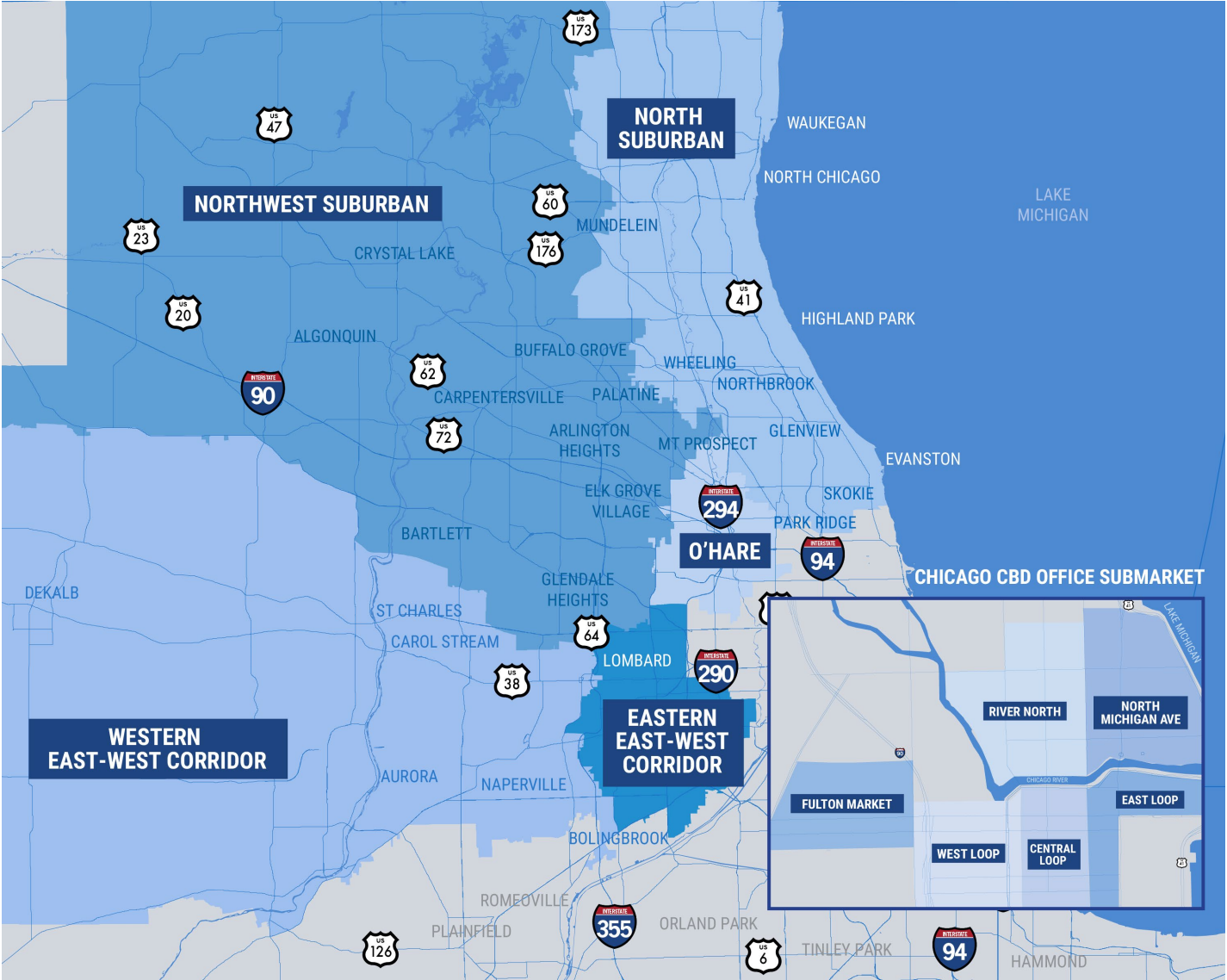
Source: U.S. Bureau of Labor Statistics

## Employment Growth By Industry

CHICAGO, MAY 2022, 12-MONTH % CHANGE, SEASONALLY ADJ.



Source: U.S. Bureau of Labor Statistics



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